PIPER

# Middle road proves best

## Most accounts in fixed income outpace indexes

**By Barry B. Burr**

In a period when the vast majority of fixed-income portfolios beat the indexes, managers in Pensions & Investments' Performance Evaluation Report who emphasized intermediate to somewhat longer maturities and higher quality performed best in the third quarter.

First National Mercantile Bank & Trust Co., Joplin, Mo., led all 233 PIPER pooled fixed-income portfolios for both the quarter and the year.

For the quarter, First National Mercantile returned 3.92%. Following were Jefferson Trust & Savings Bank, Peoria, Ill., with 3.14%; Sanwa Bank California, Los Angeles, with 2.9%; Imperial Trust Co., Los Angeles, with 2.87%; and First NH Investment Services, Manchester, N.H., with 2.72%.

During the quarter, the Shearson Lehman Hutton Government/Corporate Bond Index returned 0.94%, while the Salomon Brothers Broad Bond Index returned 1.03%.

In the quarter, 179 portfolios beat the Shearson Lehman Hutton index, while two tied it and 52 portfolios fell short. In relation to the Salomon index, 162 portfolios beat that benchmark, while one tied it and 70 fell short. The median PIPER portfolio returned 1.24%.

At First National Mercantile, Thomas H. Atteberry, chief investment officer, attributed its portfolio's top results to a combination of timing maturities and interest rate spreads on securities.

"Since June, the market has been moving sideways," meaning interest rates have been staying relatively flat, he said. "Since we have a lot in intermediate securities, we benefited."

Its $3.5 million portfolio had an average duration of 2.75 years, about half the Shearson Lehman Hutton index's duration of 5.28 years. In maturity, it averaged 3.5 years, about a third of the index's 9.8 years.

The First National Mercantile portfolio is 70% invested in corporate securities, largely regional bank securities; 20% in Treasury or agency securities; and 10% in mortgage-backed securities.

At Jefferson Trust, John H. Hartwig, trust investment representative, said, "What really helped us was our aggressiveness."

"A lot of people thought interest rates were going to go up in June and July." From January through April, he said he and his colleagues bought longer-term securities. Since summer, "we've been buying shorter term" maturities of two to four years, as the yield curve has flattened, Mr. Hartwig added.

"We have pretty much a top-down approach, trying to get a feel where the economy and (interest) rates are going," said Mr. Hartwig, who directly oversees the portfolio after replacing Stephen C. Johnson, who left in August to join Boatmen's National Bank of St. Louis.

Mr. Johnson had played well in Peoria; for the 12 months ended Sept. 30, the $23 million Jefferson Trust portfolio returned 14.83%, ranking it seventh among the funds in PIPER and far ahead of the Shearson Lehman Hutton's 11.3% and the Salomon index's 11.21%.

"We've had a preference for quality, even though leveraged buy-outs and mergers and acquisitions have a big part of the market," Mr. Hartwig said. "We didn't feel the spread was there with corporate bonds" or even government agency securities.

Jefferson Trust holds virtually all Treasury issues of the 30 securities in its $23 million portfolio. The portfolio's maturity averages five to seven years.

At First NH Investment, William Proskow, senior vice president and senior investment officer, said: "We took an aggressive posture on a decline in interest rates in the quarter. We were fortunate in our timing . . . and picking up some of the turns in the market."

With First NH Investment's interest rate anticipation strategy, Mr. Proskow uses a top-down approach, looking particularly at the direction of the economy and Federal Reserve Board actions. "We thought the economy was slowing," leading First NH Investment to buy longer-term securities.

The portfolio, which had an average duration of six years, was composed of 65% government agency securities, predominantly mortgage-backed securities; 30% corporate bonds, rated A or AA; and 5% cash. In all, 45 securities were in the $5 million portfolio.

For the 12 months, First National Mercantile returned 18.89%. It was followed by First Variable Life Insurance Co., Little Rock, Ark., with 17.66%; Sunburst Bank, Jackson, Miss., with 16.61%; Prudential Asset Management Co., Newark, N.J., with 16.55%; and Imperial Trust with 15.71%.

In all for the 12 months, 60 portfolios beat the Shearson Lehman Hutton index, while two tied it and 161 fell short. In the same period, 66 beat the Salomon index while 167 fell short. The median PIPER portfolio for the 12 months returned 10.29%.

At Equitable Capital Management Corp., New York, Frank Scott, managing director, said of the fund's 12-month performance: "We were in a bullish posture because the economy was slowing." In other words, he said the portfolio's duration was extended to about seven years.

Equitable's portfolio returned

*Continued on page 20*

**Fixed-income funds**
**(periods ended Sept. 30, 1989)**

| | Quarter | 1 yr. | 3 yr. | 5 yr. | 10 yr. |
|---|---|---|---|---|---|
| Highest return | 3.92% | 18.89% | 13.08% | 16.74% | 16.36% |
| First quartile | 1.57 | 11.34 | 8.32 | 13.12 | 11.75 |
| Median | 1.24 | 10.29 | 7.75 | 12.11 | 11.08 |
| Third quartile | 0.96 | 9.5 | 7.25 | 10.98 | 10.45 |
| Lowest return | −1.81 | 5.67 | 3.68 | 4.73 | 7.29 |
| **SLH G/C** | **0.94** | **11.3** | **7.73** | **12.82** | **11.5** |

**Equity funds**
**(periods ended Sept. 30, 1989)**

| | Quarter | 1 yr. | 3 yr. | 5 yr. | 10 yr. |
|---|---|---|---|---|---|
| Highest return | 19.65% | 53.54% | 26.23% | 29.59% | 24.91% |
| First quartile | 11.64 | 32.93 | 18.51 | 20.46 | 17.93 |
| Median | 9.71 | 28.9 | 16.64 | 18.82 | 16.83 |
| Third quartile | 7.83 | 24.95 | 14.58 | 17.36 | 15.55 |
| Lowest return | 1.87 | 9.83 | −5.32 | 7.69 | 8.97 |
| **S&P 500** | **10.73** | **32.83** | **18.64** | **20.3** | **17.35** |

# Shearson fund tops for quarter, year

**By Terry Williams**

Shearson Lehman Hutton Trust Co.'s Flexible Growth 7 equity fund had the highest return among pooled equity funds in the Pensions & Investments' Performance Evaluation Report for the third quarter, achieving a return of 19.6%.

Flexible Growth 7 also had the highest return for the year ended Sept. 30 with 53.4%.

The Standard & Poor's 500 Stock Index returned 10.73% for the quarter and 32.83% for the year. The median PIPER equity fund returned 9.71% for the quarter and 28.9% for the year.

The median funds' underperformance of the S&P 500 continued in the longer periods as well. For the five years, the median return was 18.82% compared with 20.3% for the S&P 500, and for the 10 years, the median was 16.83% vs. 17.35% for the S&P. All returns for periods of more than one year are compound annualized.

The equity fund of Sun Bank Capital Management, Orlando, Fla., led both the five- and 10-year periods with returns of 29.59% and 24.91%, respectively.

Shearson's emphasis on growth stocks paid off for the second straight quarter. In the second quarter, Flexible Growth 7 was first with a return of 16.57%.

"We're a growth stock manager, and that consistently is paying off," said Larry Tashjian, portfolio manager at Provident Investment Counsel, Pasadena, Calif., which provides investment advice to the Shearson account.

"Growth as a style has been out of favor," Mr. Tashjian said. "We haven't changed our style."

The primary reason for the portfolio's high returns is the selection of growth stocks whose earnings per share have have been between 25% and 30% over time, Mr. Tashjian said.

"These were good stocks in the second quarter and they continue to be," he said.

Besides selecting stocks of companies with strong and consistent EPS growth, Mr. Tashjian likes to see three-year sales growth, historic dividend growth and strong pre-tax earnings.

For the companies in the portfolio, these factors are present at almost twice the market average.

The fund has had a lot of success this year with **Federal National Mortgage Association** and **Student Loan Marketing Association** securities, according

*Continued on page 21*

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## Top quartile commingled equity funds
### 3-month returns

| | % |
|---|---|
| SLH Trust Co. (Flex growth 7) | 19.7 |
| Chancellor Capital (Styleshift) | 18.7 |
| Mark Twain Bank, Mo. | 18.6 |
| Hibernia Nat'l (A), La. | 17.4 |
| State Street Bank (Matrix syn.) | 17.2 |
| Southeast Bank, Fla. | 17.2 |
| Princeton Bank, N.J. | 16.4 |
| Chancellor Capital (Select growth) | 16.3 |
| Commercial Capital, Ark. | 15.9 |
| State Street Bank (CM02), Mass. | 15.7 |
| Lincoln Nat'l (Select), Ind. | 15.5 |
| Beverly Trust, Ill. | 15.4 |
| First Variable Life, Ark. | 15.4 |
| Harris Trust, Ill. | 15.1 |
| Harris Trust (Systematic), Ill. | 15.1 |
| First Wisconsin Asset (Growth A) | 15.0 |
| Chancellor Capital (Multifact) | 14.9 |
| Bank of Oklahoma, Tulsa | 14.9 |
| IDS Trust (A), Minn. | 14.8 |
| Riggs Nat'l Bank, D.C. | 14.5 |
| IDS Trust (Core growth), Minn. | 14.5 |
| Aetna Life, Conn. | 14.3 |
| Metropolitan Life (SA 40), N.Y. | 14.2 |
| Equitable Capital (Q-vest 18) | 14.1 |
| South Carolina Nat'l | 13.9 |
| First Kentucky Trust | 13.7 |
| Connecticut Mutual Life | 13.7 |
| Chancellor Capital (Index plus) | 13.4 |
| The New England (Growth) | 13.3 |
| Puget Sound Nat'l, Wash. | 13.3 |
| Union Nat'l Bank of Arkansas | 13.2 |
| John Hancock-IIA (1K), Mass. | 13.2 |
| Sun Bank, Fla. | 13.2 |
| Employers Life of Wausau (SA 1) | 13.2 |
| Chancellor Capital (Growth), N.Y. | 13.2 |
| Fifth Third Bank Miami, Ohio | 13.1 |
| Northern Trust (Select), Ill. | 13.1 |
| Mellon Equity Associates, Pa. | 13.0 |
| Meridian Investment, Pa. | 13.0 |
| Banc One Asset (Growth), Ohio | 12.9 |
| Manufacturers Life (C), Ontario | 12.6 |
| First City Nat'l (Port.), Texas | 12.5 |
| SLH Trust Co. (Directions 1) | 12.5 |
| NCNB Nat'l Bank, N.C. | 12.4 |
| Northern States Trust, Ill. | 12.3 |
| Continental Capital Mgmt., Ill. | 12.3 |
| State Bank (C), Ohio | 12.2 |
| Imperial Trust Co., Calif. | 12.2 |
| Irving Trust, N.Y. | 12.2 |
| Hamilton Bank, Pa. | 12.2 |
| Associated Kellogg, Wis. | 12.2 |
| Deposit Guaranty Nat'l, Miss. | 12.1 |
| Pacific Mutual, Calif. | 12.0 |
| Associated Manitowoc, Wis. | 12.0 |
| Comerica, Mich. | 11.9 |
| Mutual of New York (Growth) | 11.9 |
| Bank One Wisconsin (Growth) | 11.9 |
| Manufacturers Detroit | 11.9 |
| American Nat'l (Growth), Ind. | 11.8 |
| Assoc. Bank Neenah, Wis. | 11.8 |
| Bank of Delaware (VIP) | 11.7 |
| Barnett Banks Trust, Fla. | 11.6 |
| Central Fidelity, Va. | 11.6 |
| John Hancock-IIA (1L), Mass. | 11.6 |
| Equitable Capital (No. 4) | 11.6 |
| Wilmington Trust-Tremont (Total) | 11.6 |
| **S&P 500** | **10.7** |

### 1-year returns

| | % |
|---|---|
| SLH Trust Co. (Flex growth 7) | 53.5 |
| Mark Twain Bank, Mo. | 47.2 |
| State Street Bank (Matrix syn.) | 45.2 |
| Lincoln Nat'l (Select), Ind. | 44.4 |
| State Street Bank (CM02), Mass. | 42.2 |
| Equitable Capital (No. 4) | 41.8 |
| Chancellor Capital (Styleshift) | 41.8 |
| Princeton Bank, N.J. | 41.1 |
| Hibernia Nat'l (A), La. | 40.5 |
| Connecticut Mutual | 40.3 |
| Chancellor Capital (Select growth) | 40.3 |
| Irving Trust, N.Y. | 40.2 |
| IDS Trust (Core growth), Minn. | 39.9 |
| Chase-CMB (Spectrum), N.Y. | 39.5 |
| NCNB Nat'l Bank, N.C. | 39.3 |
| Metropolitan Life (SA 40), N.Y. | 38.8 |
| John Hancock-IIA (1K), Mass. | 38.3 |
| Firstier Bank Omaha, Neb. | 38.2 |
| Chancellor Capital (Growth), N.Y. | 37.8 |
| Hibernia Nat'l (G), La. | 37.7 |
| Equitable Capital (No. 1) | 37.6 |
| Meridian Investment, Pa. | 37.6 |
| First Wisconsin Asset (Growth A) | 37.6 |
| Bank One Wisconsin (Growth) | 37.4 |
| Chancellor Capital (Index plus) | 36.8 |
| Chancellor Capital (Multifact) | 36.6 |
| First Variable Life, Ark. | 36.3 |
| John Hancock-IIA (1L), Mass. | 36.2 |
| Commercial Capital (Spec.), Ark. | 36.2 |
| Associated Manitowoc, Wis. | 36.1 |
| Deposit Guaranty Nat'l, Miss. | 36.0 |
| Assoc. Bank Neenah, Wis. | 35.8 |
| Aetna Life, Conn. | 35.6 |
| IDS Trust (A), Minn. | 35.4 |
| Southeast Bank, Fla. | 35.3 |
| Mercantile Bank, Mo. | 35.3 |
| Second Nat'l Bank, Ohio | 35.2 |
| Banc One Asset (Growth), Ohio | 35.2 |
| Sun Bank, Fla. | 35.1 |
| Continental Capital, Ill. | 34.7 |
| Equitable Capital (Q-vest 18) | 34.6 |
| American Nat'l Chicago (Active) | 34.5 |
| Puget Sound Nat'l, Wash. | 34.5 |
| Chase-CMB (Stock and fut. index) | 34.2 |
| First City Nat'l (Port.), Texas | 34.2 |
| Bank of Oklahoma, Tulsa | 34.1 |
| Markston Investment, N.Y. | 33.9 |
| Chancellor Capital (Enhance ind.) | 33.8 |
| Harris Trust, Ill. | 33.7 |
| Harris Trust (Systematic), Ill. | 33.7 |
| Johnson County Bank, Kan. | 33.6 |
| U.S. Nat'l Bank, Texas | 33.5 |
| MTrust, (Growth), Texas | 33.3 |
| First Nat'l Mer. Joplin (E), Mo. | 33.3 |
| Bank One Wisconsin (Disciplined) | 33.2 |
| New York Life (SA 6) | 33.2 |
| Hamilton Bank, Pa. | 33.2 |
| Northern Trust, (Select), Ill. | 33.2 |
| Pioneer Bank, Ill. | 33.1 |
| First Nat'l Bank/Amarillo, Texas | 33.0 |
| State Street Bank (Index), Mass. | 32.9 |
| Wells Fargo (Index), Calif. | 32.9 |
| Crestar Bank, (Roanoke), Va. | 32.9 |
| First Kentucky Trust | 32.9 |
| Bankers Trust Co. (Index), N.Y. | 32.9 |
| **S&P 500** | **32.8** |

### 5-year returns

| | % |
|---|---|
| Sun Bank, Fla. | 29.6 |
| Bank One, Indianapolis (L) | 27.0 |
| State Bank (C), Ohio | 26.4 |
| State Street Bank (Matrix syn.) | 25.6 |
| SLH Trust Co. (Flex growth 7) | 24.1 |
| Chancellor Capital (Select growth) | 24.0 |
| IDS Trust (Core growth), Minn. | 23.4 |
| Pioneer Bank, Ill. | 23.2 |
| Bank One Wisconsin (Disciplined) | 23.2 |
| Firstier Bank Omaha, Neb. | 23.0 |
| State Street Bank (CM02), Mass. | 22.9 |
| Assoc. Bank Neenah, Wis. | 22.7 |
| Harris Trust (Systematic), Ill. | 22.7 |
| NCNB Texas (Diverse) | 22.2 |
| Chancellor Capital (Multifact) | 22.1 |
| Merus Capital (Income), Calif. | 22.0 |
| IDS Trust (A), Minn. | 21.9 |
| U.S. Nat'l Bank, Texas | 21.8 |
| First Fidelity (Discretionary), N.J. | 21.8 |
| Crown Life (U.S. group), Ontario | 21.7 |
| Meridian Investment, Pa. | 21.7 |
| John Hancock-IIA (1K), Mass. | 21.4 |
| United Capital Mgmt., Colo. | 21.4 |
| Chancellor Capital (Index plus) | 21.3 |
| Equitable Capital (No. 4) | 21.3 |
| First Fidelity Bank, N.J. | 21.3 |
| Harris Trust (Low p/e), Ill. | 21.3 |
| American Nat'l Chicago (Active) | 21.2 |
| Barnett Banks Trust, Fla. | 21.2 |
| Chase-CMB (Stock & fut. index) | 21.1 |
| Irving Trust, N.Y. | 21.1 |
| Associated Manitowoc, Wis. | 21.1 |
| NCNB Nat'l Bank, N.C. | 21.0 |
| Puget Sound Nat'l, Wash. | 21.0 |
| Guardian Insurance (VA 1), N.Y. | 21.0 |
| Summit Trust Co., N.J. | 21.0 |
| NCNB Texas (Income) | 20.9 |
| Mellon Equity Associates, Pa. | 20.9 |
| Wellington Trust (Divers. growth) | 20.8 |
| Harris Trust, Ill. | 20.8 |
| College Ret. Equity Fund, N.Y. | 20.7 |
| First NH Investment (A) | 20.7 |

## Top equity funds by size
### 1-year returns

#### Over $100 million

| | % |
|---|---|
| Equitable Capital (No. 4), N.Y. | 41.8 |
| NCNB Nat'l Bank, N.C. | 39.3 |
| Metropolitan Life (SA 40), N.Y. | 38.8 |
| John Hancock-IIA (1K), Mass. | 38.3 |
| Chancellor Capital (Growth) | 37.8 |
| Equitable Capital (No. 1), N.Y. | 37.6 |
| Meridian Investment, Pa. | 37.6 |
| First Wisconsin (Growth A) | 37.6 |
| Chancellor Capital (Multifact) | 36.6 |
| John Hancock-IIA (1L), Mass. | 36.2 |

#### $50 million to $100 million

| | % |
|---|---|
| State Street Bank (Matrix syn.) | 45.2 |
| Lincoln Nat'l (Select), Ind. | 44.4 |
| Chancellor Capital (Styleshift) | 41.8 |
| Hibernia Nat'l (A), La. | 40.5 |
| Chase-CMB (Spectrum), N.Y. | 39.5 |
| Chancellor Capital (Index plus) | 36.8 |
| Deposit Guaranty Nat'l, Miss. | 36.0 |
| U.S. Nat'l Bank, Texas | 33.5 |
| First Fidelity Bank, N.J. | 31.9 |
| General American (Index), Mo. | 31.6 |

#### $10 million to $50 million

| | % |
|---|---|
| State Street Bank (CM02) | 42.2 |
| Princeton Bank, N.J. | 41.1 |
| Connecticut Mutual Life | 40.3 |
| Chancellor (Select growth) | 40.3 |
| Irving Trust, N.Y. | 40.2 |
| Firstier Bank Omaha, Neb. | 38.2 |
| Hibernia Nat'l (G), La. | 37.7 |
| Bank One Wisconsin (Growth) | 37.4 |
| First Variable Life, Ark. | 36.3 |
| Assoc. Bank Neenah, Wis. | 35.8 |

#### Under $10 million

| | % |
|---|---|
| SLH Trust (Flex growth 7) | 53.5 |
| IDS Trust (Core growth), Minn. | 39.9 |
| Commercial Capital, Ark. | 36.2 |
| Associated Manitowoc, Wis. | 36.1 |
| Second Nat'l Bank, Ohio | 35.2 |
| Puget Sound Nat'l, Wash. | 34.5 |
| Johnson County Bank, Kan. | 33.6 |
| First Nat'l Mer. Joplin (E), Mo. | 33.3 |
| Pioneer Bank, Ill. | 33.1 |
| Wellington Trust (Growth) | 32.8 |

### 10-year returns

#### Over $100 million

| | % |
|---|---|
| Sun Bank, Fla. | 24.9 |
| Manufacturers Life, Ontario | 22.9 |
| First Union Nat'l Bank, N.C. | 20.4 |
| Merus Capital, Calif. | 20.0 |
| Equitable Capital (No. 4), N.Y. | 19.8 |
| The New England (Growth) | 19.7 |
| Union Labor Life (SA A), D.C. | 19.5 |
| MTrust (Growth), Texas | 19.4 |
| Manufacturers Detroit | 19.4 |
| Markston Investment, N.Y. | 19.0 |

#### $50 million to $100 million

| | % |
|---|---|
| U.S. Nat'l Bank, Texas | 20.0 |
| MTrust (Value), Texas | 19.5 |
| Merus Capital (Growth plus) | 18.8 |
| First Fidelity Bank, N.J. | 18.5 |
| Chase-CMB (Spectrum), N.Y. | 17.9 |
| Chancellor Capital (Index plus) | 17.4 |
| Mercantile Safe, Md. | 17.4 |
| The Phoenix, Conn. | 17.4 |
| First Wisconsin Trust (Income) | 17.4 |
| Texas Commerce (Growth) | 17.3 |

#### $10 million to $50 million

| | % |
|---|---|
| First Fidelity (Discret.) | 21.2 |
| United Capital Mgmt., Colo. | 20.2 |
| State Street Bank (CM02) | 19.9 |
| First Interstate of Oklahoma | 19.5 |
| Connecticut Mutual Life | 19.2 |
| First Trust Corp., Colo. | 18.7 |
| Confederation Life, Ga. | 18.6 |
| First Interstate Oregon | 18.5 |
| Firstier Bank Omaha, Neb. | 18.5 |
| Lake Shore Nat'l, Ill. | 18.5 |

#### Under $10 million

| | % |
|---|---|
| First NH Investment (A) | 20.2 |
| Associated Manitowoc, Wis. | 17.4 |
| Puget Sound Nat'l, Wash. | 17.2 |
| Second Nat'l Bank, Ohio | 17.2 |
| Union Central, Ohio | 16.6 |
| First Nat'l of Commerce, La. | 15.8 |
| Great West (VA AA), Manitoba | 15.6 |
| Planters Nat'l (Growth), N.C. | 15.4 |
| First Nat'l Bartlesville, Okla. | 15.0 |
| American Nat'l (Growth), Ind. | 14.9 |

—Jacques Bouhet,
General Manager – USA
Société Générale

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| | |
|---|---|
| Markston Investment, N.Y. | 20.7 |
| SLH Trust Co. (Value 4) | 20.7 |
| Sunburst Bank, Miss. | 20.6 |
| MTrust (Growth) Texas | 20.6 |
| Bankers Trust Co. (Index), N.Y. | 20.6 |
| MTrust (Value), Texas | 20.5 |
| First Trust Corp., Colo. | 20.5 |
| Cullen Bank, Texas | 20.5 |
| **S&P 500** | **20.3** |

### 10-year returns

| | % |
|---|---|
| Sun Bank, Fla. | 24.9 |
| Manufacturers Life, Ontario | 22.9 |
| First Fidelity (Discretionary), N.J. | 21.2 |
| First Union Nat'l Bank, N.C. | 20.4 |
| United Capital Mgmt., Colo. | 20.2 |
| Guardian Insurance (VA 1), N.Y. | 20.2 |
| First NH Investment (A) | 20.2 |
| U.S. Nat'l Bank, Texas | 20.0 |
| Merus Capital (Income), Calif. | 20.0 |
| State Street Bank (CM02), Mass. | 19.9 |
| Equitable Capital (No. 4) | 19.8 |
| The New England (Growth) | 19.7 |
| First Interstate of Oklahoma | 19.5 |
| MTrust (Value), Texas | 19.5 |
| Union Labor Life (SA A), D.C. | 19.5 |
| MTrust (Growth), Texas | 19.4 |
| Manufacturers Detroit | 19.4 |
| Connecticut Mutual Life | 19.2 |
| Markston Investment, N.Y. | 19.0 |
| Merus Capital (Gro./strat.), Calif. | 18.8 |
| First Trust Corp., Colo. | 18.7 |
| Confederation Life, Ga. | 18.6 |
| NCNB Texas (Diverse) | 18.6 |
| First Interstate Oregon | 18.5 |
| Firstier Bank Omaha, Neb. | 18.5 |
| Lake Shore Nat'l, Ill. | 18.5 |
| American Nat'l Chicago (Active) | 18.5 |
| First Fidelity Bank, N.J. | 18.5 |
| Dauphin Deposit (Corp.), Pa. | 18.4 |
| Irving Trust, N.Y. | 18.3 |
| ALIAC (Variable/tot.) | 18.3 |
| First Nat'l of Omaha (D), Neb. | 18.2 |
| John Hancock-IIA (1K), Mass. | 18.1 |
| Massachusetts Mutual | 18.1 |
| C&S Trust Florida | 18.1 |
| Employers Life/Wausau (SA 1) | 18.0 |
| Aetna Life, Conn. | 18.0 |
| Dominion Trust (Corp.), Va. | 17.9 |
| Chase-CMB (Spectrum), N.Y. | 17.9 |
| Meridian Investment, Pa. | 17.9 |
| Colorado Nat'l Bank | 17.9 |
| **S&P 500** | **17.4** |

## Top quartile commingled fixed-income funds

### 3-month returns

| | % |
|---|---|
| First Nat'l Mer. Joplin, Mo. | 3.9 |
| Jefferson Trust, Ill. | 3.1 |

| | |
|---|---|
| Sanwa Bank (C), Calif. | 2.9 |
| Imperial Trust, Calif. | 2.9 |
| First NH Investment (B) | 2.7 |
| Mutual of New York (Priv. place) | 2.7 |
| Security Nat'l Bank (II), W. Va. | 2.7 |
| American Nat'l, Ind. | 2.6 |
| Chancellor Capital (Mtg.), N.Y. | 2.5 |
| Delaware Trust | 2.5 |
| American Nat'l Chicago (Inter.) | 2.5 |
| Beverly Trust, Ill. | 2.4 |
| Sunburst Bank, Miss. | 2.4 |
| State Bank (D), Ohio | 2.4 |
| Chancellor Capital (Inter.), N.Y. | 2.4 |
| Dominion Trust (Stable cap.), Va. | 2.3 |
| American Nat'l (Income), Ind. | 2.3 |
| Second Nat'l Bank, Ohio | 2.3 |
| Chancellor Capital (Short), N.Y. | 2.3 |
| SW Nat'l Bank of Pennsylvania | 2.2 |
| Hawaiian Trust (Defensive) | 2.2 |
| Dauphin Deposit (Short), Pa. | 2.2 |
| Penn Mutual (SA C), Pa. | 2.2 |
| Bankers Trust (Gov. & agen.), N.Y. | 2.2 |
| Bank of the West, Calif. | 2.2 |
| Central Fidelity (Capital pres.), Va. | 2.2 |
| Bankers Trust (B), N.Y. | 2.2 |
| Signet Trust (Stable value), Va. | 2.2 |
| Commerce Bank (GIC), Mo. | 2.1 |
| First Nat'l Bank/Amarillo (Inter.) | 2.1 |
| MTrust, Texas | 2.1 |
| First Nat'l Bank/Amarillo, Texas | 2.1 |
| Southeast Bank, Fla. | 2.1 |
| Aetna Life (Shares/tot), Conn. | 2.1 |
| First Interstate of Wisconsin | 2.0 |
| United Capital Mgmt., Colo. | 2.0 |
| Mercantile Safe (Inter.), Md. | 1.9 |
| Gary Wheaton Bank, Ill. | 1.9 |
| First Alabama Bank | 1.9 |
| Commerce Bank, Mo. | 1.9 |
| Bank One Wisconsin Trust (Inter.) | 1.9 |
| Security Nat'l Bank, W. Va. | 1.9 |
| Central Fidelity (Short), Va. | 1.9 |
| NCNB Texas (Low vol.) | 1.9 |
| Connecticut Nat'l Bank | 1.8 |
| First Nat'l of Toledo, Ohio | 1.8 |
| Connecticut Nat'l Bank (Inter.) | 1.8 |
| Meridian Investment, Pa. | 1.8 |
| First Nat'l Mercantile (B), Mo. | 1.7 |
| Texas American Bank | 1.7 |
| SLH Trust Co. (Directions 5) | 1.7 |
| Chase-CMB (Short-inter.), N.Y. | 1.7 |
| Associated Kellogg, Wis. | 1.6 |
| Michigan Nat'l | 1.6 |
| Riggs Nat'l Bank, D.C. | 1.6 |
| Lake Shore Nat'l, Ill. | 1.6 |
| Greeley Nat'l, Colo. | 1.6 |
| Cullen Bank, Texas | 1.6 |
| Oregon Bank | 1.6 |
| First Nat'l of Omaha (C), Neb. | 1.6 |
| **SLH G/C** | **0.9** |

### 1-year returns

| | % |
|---|---|
| First Nat'l Mer. Joplin, Mo. | 18.9 |
| First Variable Life, Ark. | 17.7 |
| Sunburst Bank, Miss. | 16.6 |

| | |
|---|---|
| Prudential Rg./Asset (Long), N.J. | 16.6 |
| Imperial Trust, Calif. | 15.7 |
| Equitable Capital (No. 5) | 15.0 |
| Jefferson Trust, Ill. | 14.8 |
| Irving Trust, N.Y. | 14.7 |
| Delaware Trust | 14.3 |
| Chase-CMB (Long), N.Y. | 13.7 |
| NCNB Texas (Long) | 13.6 |
| Third Nat'l Bank, Tenn. | 13.4 |
| First Variable Life (HQ), Ark. | 13.4 |
| First Nat'l Bank/Amarillo, Texas | 13.1 |
| Trust Services of America, Calif. | 12.7 |
| General American (SA 9), Mo. | 12.5 |
| Bank of Delaware | 12.4 |
| Chase-CMB (Index), N.Y. | 12.2 |
| CIGNA Corp. (Active), Conn. | 12.2 |
| Cullen Bank, Texas | 12.2 |
| CoreStates Investment, Pa. | 12.1 |
| Beverly Trust, Ill. | 12.1 |
| Mellon Bond, Pa. | 12.1 |
| Second Nat'l Bank, Ohio | 12.0 |
| Harris Trust, Ill. | 12.0 |
| First Union Nat'l Bank (1), N.C. | 12.0 |
| LaSalle Nat'l (Long), Ill. | 11.9 |
| Bankers Trust (SLGC index), N.Y. | 11.9 |
| First Wachovia, N.C. | 11.9 |
| Pacific Mutual, Calif. | 11.8 |
| First Kentucky Trust | 11.8 |
| First Nat'l of Omaha (C), Neb. | 11.7 |
| First Wisconsin Trust (Index) | 11.7 |
| Lincoln Nat'l (Corp), Ind. | 11.7 |
| Prudential Rg./Asset (Privest) | 11.6 |
| Bank of New England, Mass. | 11.6 |
| First Asset Mgmt, Minn. | 11.6 |
| Barnett Banks, Fla. | 11.6 |
| Texas Commerce (Active) | 11.6 |
| Colorado Nat'l Bank | 11.6 |
| Marine Midland, N.Y. | 11.5 |
| Johnson County Bank, Kan. | 11.5 |
| Fidelity Bank, Pa. | 11.5 |
| Society Nat'l, Ohio | 11.5 |
| John Hancock-IIA, Mass. | 11.5 |

| | |
|---|---|
| Prudential Rg./Asset (BMI), N.J. | 11.5 |
| First Asset Mgmt. (II), Minn. | 11.5 |
| The Principal, Iowa | 11.5 |
| Liberty Nat'l, Ky. | 11.5 |
| Manufacturers Life (B), Ontario | 11.4 |
| SLH Trust Co. (Directions 5) | 11.4 |
| Chancellor Capital (Inter.), N.Y. | 11.4 |
| Riggs Nat'l Bank, D.C. | 11.4 |
| Comerica, Mich. | 11.4 |
| Connecticut Nat'l Bank (Inter.) | 11.4 |
| Midlantic, N.J. | 11.4 |
| Travelers Cos. (Index), Conn. | 11.4 |
| Wells Fargo (Index), Calif. | 11.3 |
| Connecticut Nat'l Bank | 11.3 |
| Chemical Bank (Bondex I), N.Y. | 11.3 |
| Sun Bank, Fla. | 11.3 |
| Firstier Bank Omaha, Neb. | 11.3 |
| **SLH G/C** | **11.3** |
| Wellington Trust (Enhanced) | 11.3 |

### 5-year returns

| | % |
|---|---|
| Delaware Trust | 16.7 |
| First Variable Life, Ark. | 16.7 |
| United Capital Mgmt., Colo. | 16.7 |
| Equitable Capital (No. 5) | 16.4 |
| Sunburst Bank, Miss. | 16.3 |
| Beverly Trust, Ill. | 15.3 |
| Connecticut Nat'l Bank | 14.9 |
| Trust Services of America, Calif. | 14.8 |
| The Principal, Iowa | 14.7 |
| LaSalle Nat'l (Long), Ill. | 14.6 |
| IAA Trust (B), Ill. | 14.4 |
| Travelers Cos. (SA P), Conn. | 14.3 |
| General American (SA 9), Mo. | 14.2 |
| Life of Virginia | 14.1 |
| John Hancock-IIA, Mass. | 14.1 |
| Society Nat'l, Ohio | 14.1 |
| NCNB Texas (Long) | 14.1 |
| Bankers Trust (Mtg. pass), N.Y. | 14.1 |
| First Interstate of Arizona | 14.1 |
| American Security, D.C. | 14.0 |

| | |
|---|---|
| Colorado Nat'l Bank | 14.0 |
| Crestar Bank (Roanoke), Va. | 13.9 |
| First Kentucky Trust | 13.9 |
| Sanwa Bank (C), Calif. | 13.9 |
| First Variable Life (HQ), Ark. | 13.9 |
| Aetna Life (Shares/tot), Conn. | 13.8 |
| Pacific Mutual, Calif. | 13.8 |
| Harris Trust, Ill. | 13.8 |
| First Wachovia, N.C. | 13.8 |
| Connecticut Nat'l Bank (Inter.) | 13.7 |
| Sovran Capital Mgmt. (Inst.), Va. | 13.7 |
| Metropolitan Life (SA 41), N.Y. | 13.7 |
| Manufacturers Life (B), Ontario | 13.7 |
| First Nat'l Mercantile (B), Mo. | 13.5 |
| Prudential Rg./Asset (Privest) | 13.5 |
| Johnson County Bank, Kan. | 13.5 |
| IDS Trust (A), Minn. | 13.4 |
| Bankers Trust (A), N.Y. | 13.4 |
| Comerica, Mich. | 13.4 |
| Mellon Bond, Pa. | 13.4 |
| CoreStates Investment, Pa. | 13.4 |
| Fidelity Bank, Pa. | 13.3 |
| Northern Trust, Ill. | 13.3 |
| Aetna Life (SA 76), Conn. | 13.3 |
| Bank of New England, Mass. | 13.2 |
| Merus Capital (Flexible), Calif. | 13.2 |
| Liberty Nat'l, Ky. | 13.2 |
| Marine Midland, N.Y. | 13.2 |
| Wellington Trust (Emerg.), Mass. | 13.2 |
| CIGNA Corp. (Active), Conn. | 13.1 |
| Wellington Trust (Enhanced) | 13.1 |
| First Nat'l of Omaha (C), Neb. | 13.1 |
| Chancellor Capital, N.Y. | 13.1 |
| **SLH G/C** | **12.8** |

### 10-year returns

| | % |
|---|---|
| First Variable Life, Ark. | 16.4 |
| Beverly Trust, Ill. | 13.9 |
| United Capital Mgmt., Colo. | 13.7 |
| Sovran Capital Mgmt (Inst.), Va. | 13.6 |
| Pacific Mutual, Calif. | 13.0 |


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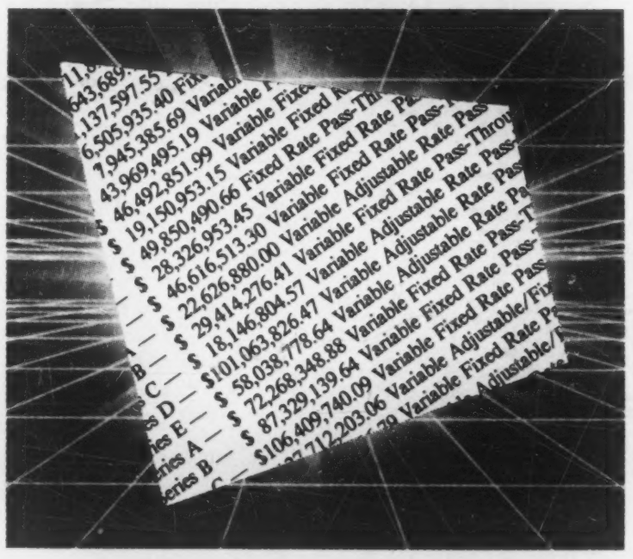

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| | |
|---|---|
| American Security, D.C. | 12.9 |
| First Kentucky Trust | 12.9 |
| Life of Virginia | 12.8 |
| Sanwa Bank (C), Calif. | 12.6 |
| Texas Commerce (Active) | 12.6 |
| Bankers Trust (Mtg. pass), N.Y. | 12.5 |
| Fidelity Bank, Pa. | 12.5 |
| IAA Trust (B), Ill. | 12.4 |
| Connecticut Nat'l Bank | 12.4 |
| Second Nat'l Bank, Ohio | 12.3 |
| Cullen Bank, Texas | 12.3 |
| First Interstate of Arizona | 12.2 |
| Central Fidelity, Va. | 12.1 |
| Bank of New England, Mass. | 12.1 |
| Aetna Life (Shares/tot), Conn. | 12.1 |
| Trust Services of America, Calif. | 12.1 |
| John Hancock-IIA, Mass. | 12.0 |
| Nat'l Westminster Bank, N.J. | 12.0 |
| Jefferson Trust, Ill. | 12.0 |
| Mississippi Valley Advisors, Mo. | 12.0 |
| Mercantile Bank, Mo. | 12.0 |
| Society Nat'l, Ohio | 11.9 |
| First Nat'l of Maryland | 11.9 |
| Crestar Bank (Roanoke), Va. | 11.9 |
| Bankers Trust (A), N.Y. | 11.9 |
| American Nat'l Chicago (Inter) | 11.9 |
| Hibernia Nat'l, La. | 11.9 |
| Manufacturers Detroit | 11.9 |
| First Wachovia, N.C. | 11.8 |
| CIGNA Corp. (Inter.), Conn. | 11.8 |
| Key Trust Co., N.Y. | 11.8 |
| CIGNA Corp. (Active), Conn. | 11.8 |
| Trustcorp Bank, Ohio | 11.8 |
| **SLH G/C** | **11.5** |

## Top two deciles Piper Plus equity funds

### 3-month returns

| | % |
|---|---|
| Provident Invst. Counsel (Stellar) | 24.1 |
| Janus Capital | 24.1 |
| Intelligent Invst. (Val. rotator) | 22.9 |
| Cheswick Invst. | 20.7 |
| IDS Advisory (Emerg. growth) | 19.0 |
| Hutson Mgmt. (Growth) | 18.7 |
| Provident Invst. Counsel | 18.1 |
| Capital Growth Mgmt. | 17.9 |
| Sirach/Flinn, Elvins | 17.3 |
| Investors Research (Growth) | 16.9 |
| William D. Witter | 16.6 |
| Nicholas-Applegate (Growth) | 16.4 |
| Pennsylvania Invst. (Dynamic) | 16.0 |
| Fred Alger Mgmt. | 15.7 |
| Jundt/Capen (Large cap.) | 15.7 |
| Lynch & Mayer (Growth) | 15.7 |
| General American (Closed-end) | 15.5 |
| Abel Noser | 15.5 |
| IDS Advisory | 15.2 |
| Pacific Century Advisers (Growth) | 15.1 |
| Lincoln Capital Mgmt. | 15.0 |
| Crescent (Enhanced index) | 14.8 |
| Value Line (VLAM/standard) | 14.8 |
| J & W Seligman (Growth) | 14.8 |
| Investors Research (Select) | 14.7 |
| IDS Advisory (Large cap. growth) | 14.5 |
| Frontier Capital (Trad. growth) | 14.2 |
| Aetna Capital Mgmt. | 14.2 |
| Hellman, Jordan | 13.9 |
| Wilke Capital (Core growth) | 13.8 |
| Putnam Cos. | 13.4 |
| Peregrine (Agg./small cap.) | 13.0 |
| Chase Investors (Sm. cap. value) | 12.8 |
| Leylegian Invst. | 12.8 |
| RCM Capital Mgmt. | 12.7 |
| Cadence Capital (Core) | 12.7 |
| Miller, Anderson & Sherrerd | 12.7 |
| Harbor Capital | 12.7 |
| **S&P 500** | **10.7** |

### 1-year returns

| | % |
|---|---|
| Cheswick Invst. | 63.1 |
| Janus Capital | 62.8 |
| Provident Invst. Counsel (Stellar) | 56.6 |
| Investors Research (Growth) | 53.7 |
| Provident Invst. Counsel | 50.0 |
| Intelligent Invst. (Val. rotator) | 48.9 |
| J.M. Hartwell | 47.3 |
| Frontier Capital (Energy) | 47.0 |
| MIDCO (Sm. cap. growth) | 45.8 |
| Tukman Capital (Active) | 43.9 |
| Pacific Century (Growth) | 43.8 |
| Lynch & Mayer (Growth) | 43.1 |
| PRIFORM Invst. (Value) | 43.0 |
| Lehman Ark Mgmt. (Spec. sit.) | 42.5 |
| Chase Investors (Small cap.) | 41.3 |
| Mass. Financial (Low vol.) | 41.3 |
| Peregrine (Agg./small cap.) | 41.1 |
| Sirach/Flinn, Elvins | 41.1 |
| Pennsylvania Invst. (Dynamic) | 41.1 |
| Hutson Mgmt. (Growth) | 40.8 |

## Top fixed funds by size

### 1-year returns

### Over $100 million

| | % |
|---|---|
| Equitable Capital (No. 5), N.Y. | 15.0 |
| Chase-CMB (Long-term) | 13.7 |
| CIGNA Corp. (Active), Conn. | 12.2 |
| Mellon Bond, Pa. | 12.1 |
| Harris Trust, Ill. | 12.0 |
| First Union Nat'l Bank (1), N.C. | 12.0 |
| First Wachovia, N.C. | 11.9 |
| Pacific Mutual, Calif. | 11.8 |
| First Kentucky Trust | 11.8 |
| First Wisconsin Trust | 11.7 |

### $50 million to $100 million

| | % |
|---|---|
| Prudential Rg/Asset (Long) | 16.6 |
| Trust Services/America, Calif. | 12.7 |
| CoreStates, Pa. | 12.1 |
| Barnett Banks, Fla. | 11.6 |
| Texas Commerce (Active) | 11.6 |
| Marine Midland, N.Y. | 11.5 |
| Fidelity Bank, Pa. | 11.5 |
| Liberty Nat'l, Ky. | 11.5 |
| Chancellor Capital (Inter.) | 11.4 |
| Midlantic, N.J. | 11.4 |

### $10 million to $50 million

| | % |
|---|---|
| Jefferson Trust, Ill. | 14.8 |
| Irving Trust, N.Y. | 14.7 |
| Delaware Trust | 14.3 |
| NCNB Texas (Long) | 13.6 |
| Third Nat'l Bank, Tenn. | 13.4 |
| First Nat'l Bank/Amarillo | 13.1 |
| General American (SA 9), Mo. | 12.5 |
| Bank of Delaware | 12.4 |
| Chase-CMB (Index), N.Y. | 12.2 |
| Cullen Bank, Texas | 12.2 |

### Under $10 million

| | % |
|---|---|
| First Nat'l Mer. Joplin, Mo. | 18.9 |
| First Variable Life, Ark. | 17.7 |
| Sunburst Bank, Miss. | 16.6 |
| Imperial Trust, Calif. | 15.7 |
| First Variable Life (HQ), Ark. | 13.4 |
| Second Nat'l Bank, Ohio | 12.0 |
| LaSalle Nat'l (Long), Ill. | 11.9 |
| Connecticut Nat'l Bank | 11.3 |
| IDS Trust (A), Minn. | 11.0 |
| Bank One, Indianapolis | 10.9 |

### 10-year returns

### Over $100 million

| | % |
|---|---|
| Sovran Capital, Va. | 13.6 |
| Pacific Mutual, Calif. | 13.0 |
| American Security, D.C. | 12.9 |
| First Kentucky Trust | 12.9 |
| Bankers Trust (Mtg. pass) | 12.5 |
| Bank of New England, Mass. | 12.1 |
| Aetna Life (Shares/tots) | 12.1 |
| John Hancock-IIA, Mass. | 12.0 |
| Mercantile Bank, Mo. | 12.0 |
| Manufacturers Detroit | 11.9 |

### $50 million to $100 million

| | % |
|---|---|
| Life of Virginia | 12.8 |
| Texas Commerce (Active) | 12.6 |
| Fidelity Bank, Pa. | 12.5 |
| Trust Services/America, Calif. | 12.1 |
| Bankers Trust (A), N.Y. | 11.9 |
| Hibernia Nat'l, La. | 11.9 |
| Bankers Trust (B), N.Y. | 11.7 |
| Chancellor Capital (Inter.) | 11.4 |
| Massachusetts Mutual | 11.4 |
| CoreStates, Pa. | 11.4 |

### $10 million to $50 million

| | % |
|---|---|
| Beverly Trust, Ill. | 13.9 |
| Sanwa Bank (C), Calif. | 12.6 |
| IAA Trust (B), Ill. | 12.4 |
| Cullen Bank, Texas | 12.3 |
| First Interstate of Arizona | 12.2 |
| Central Fidelity, Va. | 12.1 |
| Jefferson Trust, Ill. | 12.0 |
| Society Nat'l, Ohio | 11.9 |
| First Nat'l of Maryland | 11.9 |
| Key Trust, N.Y. | 11.8 |

### Under $10 million

| | % |
|---|---|
| First Variable Life, Ark. | 16.4 |
| Connecticut Nat'l Bank | 12.4 |
| Second Nat'l Bank, Ohio | 12.3 |
| Crestar Bank (Roanoke), Va. | 11.9 |
| Oregon Bank | 11.3 |
| Sunburst Bank, Miss. | 10.9 |
| Assoc. Manitowoc (High inc.) | 10.8 |
| Valley Nat'l (II), Ariz. | 10.8 |
| First Trust Corp., Colo. | 10.6 |
| First NH Investment (B) | 10.6 |

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| | |
|---|---|
| J & W Seligman (Growth) | 40.3 |
| IDS Advisory (Large cap. growth) | 39.9 |
| Cramer Rosenthal McGlynn (Val.) | 39.9 |
| Fred Alger Mgmt. | 39.7 |
| Hellman, Jordan | 39.4 |
| Value Line (VLAM/stand.) | 39.3 |
| Scudder Stevens & Clark (Gr/inc.) | 39.2 |
| Investors Research (Select) | 38.4 |
| Chase Invst. Counsel | 38.2 |
| Crescent (Enhanced index) | 38.0 |
| Balch, Hardy & Scheinman | 37.7 |
| Investment Counselors | 37.3 |
| Markston Invst. (Corp.) | 37.2 |
| Furman Selz Capital | 37.2 |
| J.P. Morgan Invst. (Research) | 37.1 |
| Aetna Capital Mgmt. | 36.1 |
| IDS Advisory (Emerg. growth) | 36.0 |
| **S&P 500** | **32.8** |

| | |
|---|---|
| Standish, Ayer & Wood (S.A. free) | 12.0 |
| Wright Investor's Service | 11.9 |
| IDS Advisory | 11.7 |
| **SLH G/C** | **11.3** |

### 5-year returns

| | % |
|---|---|
| Bridgewater Asset (Mkt. timing) | 19.3 |
| McKee Invst. | 18.1 |
| STW Fixed Income (Long comp.) | 17.8 |
| Huff Asset Mgmt. | 17.2 |
| Trevor Stewart Burton Jacobsen | 16.7 |
| Trust Co./West (Convert. GW) | 16.7 |
| Hoisington Invst. | 16.7 |
| Trust Co./West (Convert.) | 16.6 |
| Denver Invst. (Long term) | 16.1 |
| Red Oak Advisers (Protective) | 15.3 |
| Trust Co./West (High yield) | 15.1 |
| Froley Revy (Conv. only A/C) | 15.1 |
| Calamos Asset (Convert.) | 14.9 |
| PRIMA (PRIMA X) | 14.8 |
| Peters, Gamm & West | 14.6 |
| Caywood Christian (High yield) | 14.6 |
| Wright Investor's Service | 14.6 |
| Western Asset Mgmt. (Long term) | 14.6 |
| **SLH G/C** | **12.8** |

# Middle road

*Continued from page 15*

14.96% for the 12 months, ranking it sixth among all PIPER funds and first among those larger than $100 million.

For the quarter, Equitable returned 0.29%, placing it in the last decile.

At Chase Investors Management Corp., Dan C. Roberts, managing director-fixed income, said, "We extended duration significantly in April and caught the market rally." It moved its average duration two years, mostly done in April, to 8.2 years, about double the Shearson Lehman Hutton index's average.

Chase's $200 million portfolio returned 13.71% for the 12 months, ranking it second among portfolios of more than $100 million and 10th among all portfolios. Mr. Roberts attributed most of the 12-month performance to the moves in April. In the third quarter, it returned 0.63%, ranking it in the ninth decile.

Chicago-based Harris Trust & Savings Bank's $280 million portfolio returned 11.99% for the 12 months, ranking it fifth among portfolios of more than $100 million and 25th among all portfolios. For the quarter, Harris returned 1.17%, ranking in the sixth decile. The fund's average maturity was about 10 years, compared with a Shearson Lehman Hutton index maturity of 9.8 years. ■

### 5-year returns

| | % |
|---|---|
| Intelligent Invst. (Val. rotator) | 37.5 |
| NFJ Invst. Group (Select) | 37.0 |
| C.H. Brown (Computer) | 33.2 |
| Wilshire Asset (Lg. co. growth) | 32.0 |
| Crescent (Enhanced index) | 31.1 |
| J.M. Hartwell | 28.2 |
| Pennsylvania Invst. (Dynamic) | 28.0 |
| Advanced Quantitative (Neglect) | 27.5 |
| Cheswick Invst. | 26.7 |
| Cadence Capital (Core) | 26.1 |
| Tukman Capital (Active) | 24.9 |
| Leylegian Invst. | 24.9 |
| GAMCO Investors | 24.9 |
| Waddell & Reed (Core) | 24.8 |
| Capital Growth Mgmt. | 24.7 |
| Trevor Stewart Burton Jacobsen | 24.7 |
| Scudder Stevens & Clark (Gr/inc.) | 24.5 |
| Institutional Capital | 24.2 |
| John A. Levin (Cap. weighted) | 23.9 |
| Investors Research (Growth) | 23.6 |
| Steven J. Margaretic | 23.6 |
| Philadelphia Invst. | 23.5 |
| IDS Advisory (Large cap. growth) | 23.4 |
| Equinox Capital Mgmt. (U.S.) | 23.3 |
| Lehman Ark Mgmt. (Spec. sit.) | 23.3 |
| Caldwell & Orkin | 23.3 |
| J.P. Morgan Invst. (Research) | 23.1 |
| Hutson Mgmt. (Growth) | 23.0 |
| Mitchell Hutchins (Select) | 23.0 |
| Sirach/Flinn, Elvins | 22.8 |
| Securities Research (Dreyfus) | 22.7 |
| PRIMECAP Mgmt. | 22.6 |
| Lynch & Mayer (Growth) | 22.4 |
| **S&P 500** | **20.3** |

## Top two deciles Piper Plus fixed-income funds

### 3-month returns

| | % |
|---|---|
| Trust Co./West (Convert. GW) | 7.5 |
| Calamos Asset (Convert.) | 7.2 |
| Trust Co./West (Convert.) | 6.2 |
| Froley Revy (Conv. only A/C) | 5.3 |
| Gateway Invst. (Inc. plus) | 3.8 |
| Philadelphia Invst. | 3.5 |
| Gateway Invst. (Dividend) | 2.6 |
| Chemical Invst. (Money mkt.) | 2.4 |
| Gabelli O'Connor (Act. cash) | 2.4 |
| McKee Invst. | 2.3 |
| Hoisington Invst. | 2.3 |
| DFA (Inflation hedge) | 2.2 |
| Huff Asset Mgmt. | 2.1 |
| Discount Corp. of N.Y. (Cash) | 2.1 |
| VCS&O Asset | 2.0 |
| PRIMA (PRIMA V) | 1.9 |
| PRIMA (PRIMA III) | 1.9 |
| Gardner & Preston Moss (Short) | 1.8 |
| Investment Counselors | 1.8 |
| Morison Asset (Reserve asset) | 1.8 |
| EMG Advisors (Var. rate) | 1.8 |
| PRIMA (PRIMA X) | 1.8 |
| **SLH G/C** | **0.9** |

### 1-year returns

| | % |
|---|---|
| Trust Co./West (Convert. GW) | 22.4 |
| Trust Co./West (Convert.) | 20.2 |
| Calamos Asset (Convert.) | 18.7 |
| Trevor Stewart Burton Jacobsen | 18.2 |
| Bridgewater Asset (Mkt. timing) | 16.8 |
| STW Fixed Income (Long comp.) | 15.9 |
| Peters, Gamm & West | 15.2 |
| Froley Revy (Conv. only A/C) | 15.1 |
| Huff Asset Mgmt. | 14.9 |
| McKee Invst. | 14.6 |
| Gateway Invst. (Inc. plus) | 13.6 |
| Red Oak Advisers (Protective) | 13.6 |
| Denver Invst. (Long term) | 13.4 |
| J & W Seligman | 12.9 |
| Investment Counselors | 12.1 |
| PIMCO (Total return) | 12.1 |
| Western Asset (Long term) | 12.0 |
| Standish, Ayer & Wood (Core) | 12.0 |

PIPER

# Shearson fund tops

*Continued from page 15*

to Mr. Tashjian. "We had some help earlier this year with cellular telephone stocks," he said.

Other stocks that have performed well are **Walt Disney Co.**, **Warner Communications Inc.** and **Browning-Ferris Industries Inc.**

Chancellor Capital Management's Styleshift fund was second for the quarter, achieving a return of 18.69%.

Styleshift is a quantitative fund that uses fact-based models to forecast whether aggressive or defensive stocks will be in favor during the next three to six months, according to Eric Remole, vice president with New York-based Chancellor.

The model examines inflation pressures and the market outlook and determines if aggressive or defensive stocks are overpriced or underpriced relative to the market. Once the model determines which type of stock will do well, it then selects the best stocks within that type, according to Mr. Remole.

If neither defensive nor aggressive stocks are in favor, the model makes a selection based on earnings and price momentum.

During the third quarter, the portfolio's style was neutral to defensive and is now neutral, so in essence all the weight is on the momentum factor.

"It's not making a big bet on aggressive stocks or on defensive stocks," Mr. Remole said. "It's basically looking at stocks that have good momentum."

Stocks that performed well in the $60 million Styleshift fund during the quarter include **Fannie Mae**, **MCI Communications Corp.** and **Walt Disney Co.**, according to Mr. Remole.

Mark Twain Trust Division's $7.7 million stock fund finished third and second, respectively, for the quarter and year ended Sept. 30.

Carl Enloe, senior vice president with Mark Twain Trust Division, St. Louis, said stocks for the fund are selected based on earnings and revenue growth and value comparisons that take into account the price-to-earnings, price-to-sale and price-to-book ratios.

"We're looking for common stocks that are showing above average earnings growth well within the historic value guidelines we look at," Mr. Enloe said. "Most times, it leads us to high-cap stocks, but from time to time, cyclicals come in.

"We don't go into the small caps or those judged to be risky."

The fund has large positions in **Philip Morris Cos. Inc.**, **Loews Corp.**, **Fannie Mae**, **BankAmerica Corp.** and **American International Group Inc.**

The equity fund of Sun Bank Capital also was a repeat top performer. The fund achieved the highest returns in the PIPER universe during the five- and 10-year periods ended Sept. 30 and June 30.

Boston-based State Street Bank and Trust Co.'s Matrix Synthesis fund finished third for the year ending Sept. 30, achieving a return of 45.22%.

According to John C. Bogle Jr., vice president of asset management, stocks that are selected for the fund exhibit outstanding relative value based on two quantitative measures.

Mr. Bogle buys stocks that sell far below intrinsic value or those whose intrinsic value is expected to increase in the near future.

"We have a disciplined approach that combines the two rankings to allow for stocks that would exhibit exceptional characteristics on either model or strong characteristics on both models," he said.

"It's a very quantitative and disciplined approach that uses very little judgment beyond the selections of our quantitative models," Mr. Bogle said.

Though he declined to specify the holdings in the portfolio, Mr. Bogle said that past holdings have included **L.A. Gear Inc.**, **MCI Communications Corp.**, **Sotheby's Holdings Inc.** and **Airborne Freight Corp.**

For the five and 10 years ended Sept. 30, the equity fund's return on investment was 29.59% and 24.91%, respectively.

Anthony Gray, president of Sun Bank Capital Management, said the stocks in the $750 million portfolio tend to be the "very large, high-quality stocks" including **Merck & Co. Inc.**, **Procter & Gamble Co.** and **General Electric Co.**

"We look for companies that are currently doing well and will do well in the future."

According to Mr. Gray, he first determines which industries he likes, then he looks for homogeneous companies within the particular industry. If, for example, Mr. Gray favors the telephone industry, there are eight companies from which he he can choose.

"We move back and forth among those companies, depending on which ones looks most attractive at the time," he said. "The main strategy is using good quality companies that grow and strict price discipline."

Over the time period, the best performers have been the consumer non-durables which are substantially overweighted in the portfolio, Mr. Gray said.

PIPER is compiled by Rogers, Casey & Associates, Darien, Conn. The equity universe is composed of 330 pooled funds offered by banks, trust companies and insurance companies. ■

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Letters should include name, address and the company of the writer. The editors reserve the right to edit any letter for reasons of space or clarity.

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PORTFOLIO MANAGEMENT

# Describing uncertainty is the key

## Multiple scenarios improve forecasts

By Robert van der Meer and Frank Sortino

*You expect things to go badly and they don't,*
*that you call good luck.*
*You expect things to go well and they don't,*
*that you call bad luck.*
*Because you lack an understanding of uncertainty,*
*you put your trust in luck rather than reason.*

All allocation models require some description of the uncertainty associated with the expected returns on assets in order to identify an optimal mix, yet the most commonly used procedure of generating the input requires a lot more reliance on luck than reason.

Managing risk has nothing to do with luck. It has to do with one's ability to describe uncertainty.

To illustrate, let's assume you want to make an allocation among income-producing, growth-producing and inflation-protection assets in order to match the three characteristics of the liabilities. This is the approach taken at the more than $14 billion Shell Pension Fund in the Netherlands.

Assume your allocation model contains a data base from which you choose the interval 1960 to the most recent quarter. This is a long enough interval to capture the economic events that might occur in the future and it is up to date. A few key strokes on the computer give you risk and return measures calculated to the fourth decimal place.

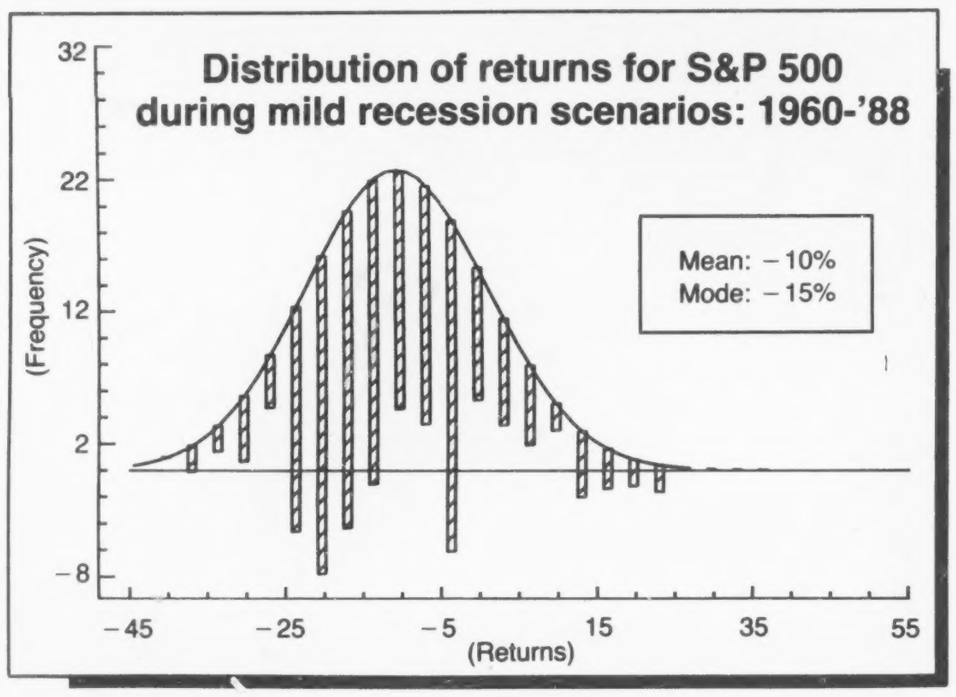
Unfortunately, you have made two assumptions that render the output highly suspect:

- A single interval of history will produce reasonable estimates of the risk-return measures for each asset in a future planning horizon.
- The uncertainty associated with the returns of each asset are bell shaped.

With respect to the first point, there is a plethora of research that indicates the means and standard deviations change dramatically in different time periods. Therefore, the risk-return measures for any historical interval are unlikely to be representative of any period other than the historic interval during which the data were gathered.

Second, while there is wide disagreement on just what shape the distributions may take, most researchers agree they are not bell-shaped.

One solution to this problem lies in identifying the returns-generating mechanism. We prefer to focus on the results rather than modeling the cause. We don't need to know what causes recessions in order to observe them.




During the 28-year period from 1960 to 1988 many economic scenarios took place. Portfolio managers tend to refer to them in terms of recession, stagnant, growth and inflation periods. These are scenarios for which there seems to be a link between economic phenomena and the financial markets. Of course, there are times, like 1987, when the link is broken, and those intervals are referred to as a period of chaos.

We see from Table 1 that growth periods occurred 46% of the time and chaos reigned about 5% of the time during the 28-year period. Only if each of the seven scenarios recurred with the same frequency could the historical risk-return measures be accurate estimates of future uncertainty. Therefore, using a single period in history as the best estimate of what the future will bring places a great deal of reliance on luck rather than reason.

How to determine what scenario occurred, when it began and when it ended, is not a trivial task. It is doubtful any one methodology could be shown to be superior to all others.

Once the scenarios are identified, one must decide how to generate the distributions. Most researchers have chosen to annualize the monthly data within each scenario to produce a mean and standard deviation.

(The problem with this procedure, and the method used to overcome it, are described in an article titled "The Look of Uncertainty" in the December 1989 issue of Investing magazine.)

The procedure used by the Shell Pension Fund, however, attempts to replicate the underlying distribution rather than use average risk-return measures from historical intervals. It is of little use to identify scenarios unless the underlying distribution for each asset is stable within each scenario.

Research generated by the Pension Research Institute indicates the mean and standard deviation are inadequate for describing the shape of uncertainty associated with securities returns. The hanging histobar graph serves to illustrate this point. If the distribution for the Standard & Poor's 500 Stock Index for mild recessions was bell-shaped, all of the bars — whose lengths represent the likelihood of a given return — would be contained within the bell. Instead, they hang down in the center (indicating kurtosis or a pointedness in the bell shape) and there are more observations in the right tail than the normal distribution would predict (indicating positive skewness). Knowing the average return is −10% is not as informative as knowing the most likely return is −15%.

In other words, four moments — the mean, standard deviation, skewness and kurtosis) are better than two when the distributions are not bell-shaped, and seven scenarios are better than one when trying to use historical data to forecast the future.

While chaos (as we have defined it) may cause fat tails — and fat tails make it very difficult to measure risk — the pattern of chaos may have a certain shape that can be captured, in which case chaos can be managed just like any other scenario.

Instead of assuming only one scenario is the best estimate of what the distribution of future returns will be, the investor can use multiple scenarios to describe the uncertainty being faced in the financial markets.

By assigning a probability to each scenario, a combined distribution can be determined by a computer that accurately represents the investor's view of uncertainty.

We believe scenario forecasting is an intuitively appealing procedure that combines the objectivity of historical data with the manager's subjective opinions about future economic events that will determine the returns on each asset. The Shell Pension Fund has used scenario forecasting since the pioneering work of Pierre Wack at Harvard University in the early 1970s and has found it to be a useful concept for coping with uncertainty. ■

*Mr. van der Meer is director of investments for the Shell Pension Fund and an instructor of pension management at Groningen University, Groningen, The Netherlands. Mr. Sortino is director of the Pension Research Institute at San Francisco State University.*

TABLE 1
**Frequency of economic scenarios: 1960-'88**

| | |
|---|---|
| Growth | 46.4% |
| Mild recession | 14.3 |
| Stagnant | 10.7 |
| High inflation | 8.9 |
| Mild inflation | 7.2 |
| Deep recession | 7.1 |
| Chaos | 5.4 |

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# Tennessee fund hires Callan

NASHVILLE, Tenn. — The $8 billion Tennessee Consolidated Retirement System has hired Callan Associates Inc., Atlanta, to serve as the fund's first consultant.

Callan also will consult on $1.6 billion in assets held in a Tennessee cash pool and a local government investment pool, as well as $110 million in the state's Chairs of Excellence endowment fund.

The fund already uses INDATA, a service of Gordon, Haskett & Co., to measure performance; Callan will provide a check for the system, explained Charles Webb, chief investment officer.

Callan also may conduct an asset/liability study for the fund, but no final decision has been made, Mr. Webb said. ■

*Index Fund Management*

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FINANCING

# Young companies tap into new market

## Venture leasing frees up firms' working capital

By Marcia Parker

While the venture capital industry can't point to thriving times, a growing niche market called venture leasing is a new source of capital for emerging growth companies seeking financing for equipment.

Venture leasing is for start-up, early stage and later-stage companies and allows them to conserve their equity for working capital and other needs, although some providers take warrants to boost the upside potential.

Fledgling companies usually are hard-pressed to tap traditional sources of financing like long-term debt to buy equipment. Venture leasing is often used to complement venture capital as early stage financing; it allows a company to pay for equipment over its life with cost savings or with revenue generated from its use. Some venture leasing groups won't deal with a company that is not backed by venture capital, and most lessors won't back a new company without a track record.

A few leasing companies, financial institutions and others spotted this unfilled need and have started venture leasing groups. They are after the kind of high double-digit returns common in venture capital success stories. While the market is too new to establish a record of returns, more than 20% is a reasonable estimate, the players said.

"It's a developing niche; it's out of its infancy. It's a 5-year-old nationwide industry, but it's still untested and unproven. The perception is that the market is bigger than it is," said Jim LaBe, director of the venture leasing division of Comdisco Inc., a Rosemont, Ill., leasing company that is one of the major players. He disagrees with a forecast by Venture Economics magazine that it will be a $1 billion industry in five years. Comdisco's own estimate is that today's $200 million market will grow about 15% a year.

But Martin Zimmerman, president and chief executive officer of The LINC Group Inc., Chicago, said the growth will depend on what happens in the public securities market. "It's a function of the market. If the IPO market does not come back, the growth will be higher because venture leasing is an efficient way for emerging growth companies to raise capital," he said.

The venture leasing industry is dominated by Comdisco and Equitec Leasing, Oakland, Calif., which do more than $50 million in business each a year. Second-tier players are Dominion Partners, San Francisco, and Technology Funding, San Mateo, Calif., which do $25 million to $50 million. Minor players include The LINC Group and Pace Capital, Emeryville, Calif., which does limited venture leasing.

Some of the players fund limited partnerships from institutional and corporate investors such as finance companies with leasing affiliates, insurance companies, a few retirement systems and others who see an opportunity to reap venture capital returns.

The LINC Group just closed its second venture leasing partnership, a $30 million partnership, funded from individual and institutional investors, including foreigners. The partnership will invest in more than $50 million of equipment, leased to development-stage companies in health care and high technology. Bear, Stearns & Co. Inc. and The Chase Manhattan Bank privately placed the offering. Chase invested $500,000 in the fund along with many European and Mideastern financial institutions. Mr. Zimmerman said the investors are attracted by the fact they are getting a short-term, secured and senior instrument with predictable cash flow and the upside potential that comes from the equity participation in the form of warrants or stock ownership.

LINC's first health care venture leasing partnership was offered in 1987 and has made commitments of more than $20 million in equipment. Comdisco executives are discussing doing either a limited partnership or joint venture with major financial service industry firms that would give them a stake in Comdisco deals. "There is an increased level of corporate interest in investing in venture

*Continued on page 40*

**Sybase Inc., which designed this data base software system, used venture leasing provided by Comdisco Inc. and other companies.**

# Forces pushing securities industry to change

By Leonard J. Hollie

NEW YORK — The emergence of very powerful foreign securities firms and the globalization of the securities market are but two of several factors that will speed the already dramatic restructuring of the U.S. securities industry in the 1990s, a year-end industry forecast predicts.

The ever-stiffening competition, combined with other industry risks, such as overcapacity in people and capital and deregulation of the financial services industry, will create poor prospects for profitability.

These diverse challenges, according to Moody's Investors Service, are pushing U.S. securities industry managers to retreat from their 1980s goal of becoming global players in a broad range of products and re-examine business mixes and structures.

"The principal factors that will guide these re-examinations will likely be equity returns, the respective firm's core franchises and resource constraints," said John Kriz, Moody's vice president, and Christopher Mahoney, associate director, authors of the report.

The final outcome could be a transformation of the character of certain firms, the authors said.

"Some firms could simply retreat from overseas activities and concentrate solely on domestic business. Others could de-emphasize customer business and stress merchant banking or proprietary trading."

In analyzing 10 U.S. securities firms, including six of the largest — Merrill Lynch & Co. Inc.; Morgan Stanley Group Inc.; The Bear Stearns Cos. Inc.; Salomon Inc.; CS First Boston Inc.; and Shearson Lehman Hutton Holdings Inc. — Moody's sees the ratings of these firms as remaining stable for the immediate term, with potential for downward pressure over the long term.

Moody's expects intense competition to occur through the rest of the century in the securities industry.

The likelihood of more aggressive involvement in U.S. and overseas securities markets by very powerful foreign, especially Japanese, securities firms and banks is a major component of Moody's analysis.

"The vital role of Japan in the world economy provides an important leg-up for its securities-related efforts globally," said Messrs. Kriz and Mahoney in the report. "The Japanese have a long-term strategy in the securities business that should steadily eat away at global market positions and profitability of the U.S. securities firms."

The competition, however, includes not only the big four Japanese securities firms — Nomura Securities Co. Ltd., Nikko Securities Co. Ltd., Daiwa Securities Co. Ltd. and Yamaichi Securities Co. Ltd. — the authors caution, but also Japanese banks and European universal banks.

European competition may be especially strong with 1992 broadening the horizons of Euro-

*Continued on page 40*

### U.S. securities industry outlook

**Operating statistics***

| | 1988 | 1987 | 1986 | 1985 | 1984 | 5-yr. average |
|---|---|---|---|---|---|---|
| ROAA less resales (%) | 0.90 | 0.75 | 1.00 | 0.84 | 0.68 | 0.83 |
| ROAE (%) | 12.23 | 11.70 | 21.48 | 20.57 | 14.50 | 16.10 |
| EBT/net rev. (%) | 15.34 | 10.70 | 19.55 | 19.24 | 11.70 | 15.31 |
| Net int. inc./EBT (%) | 75.80 | 79.83 | 38.97 | 52.47 | 123.93 | 74.20 |
| Capital growth (%) | 11.95 | 8.66 | 23.21 | 20.32 | 13.33 | 15.49 |
| Fixed-charge cov. (X) | 1.17 | 1.16 | 1.33 | 1.22 | 1.15 | 1.21 |

**Balance sheet statistics***

| | 1988 | 1987 | 1986 | 1985 | 1984 | 5-yr. average |
|---|---|---|---|---|---|---|
| Assets ($ bils.) | 54.97 | 45.22 | 42.55 | 37.99 | 26.57 | 34.76** |
| Equity ($ bils.) | 2.07 | 1.97 | 1.68 | 1.31 | 1.05 | 24.05** |
| AE/AA less resales (%) | 7.10 | 6.48 | 5.01 | 4.73 | 5.90 | 5.85 |
| Long-term borr./eq. (X) | 1.08 | 0.82 | 0.84 | 0.71 | 0.59 | 0.81 |
| Liq. assets/liabs. (%) | 97.29 | 96.34 | 96.26 | 97.5[illegible] | 96.63 | 96.29 |
| Asset turnover (%) | 9.49 | 8.39 | 8.32 | 8.50 | 8.57 | 8.8 |

*Peer group average for Bear Stearns, Merrill Lynch, Morgan Stanley, Paine Webber, Salomon and Shearson Lehman Hutton Holdings
**Compound average growth rate
Source: Moody's Investors Service, New York

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# Securities industry

*Continued from page 39*
pean banks, creating even more powerful financial firms.

The globalization of the securities market is another example of the changed scale of competition. Moody's said there is now a de facto global capital and money market, with domestic markets linked into the global marketplace.

"One byproduct of this globalization is that it has allowed firms to poach in each other's home markets, which drives down everyone's returns," according to the authors.

Domestically, greatly expanded capacity in the securities industry fueled by the 1980s bull market caused the creation of huge and costly infrastructures. In 1980, New York Stock Exchange member broker dealers had $5.4 billion of equity capital and 143,000 employees.

By the end of 1988, their capital had risen 396% to $26.8 billion and personnel had increased 67% to 238,637.

This greatly increased capacity has been supplemented further by significantly heightened activity in the United States from foreign securities and banking firms.

"Given the market conditions and prospects, material industry overcapacity exists that will take years to reduce," said Messrs. Kriz and Mahoney. "This profit outlook also raises securities firms' capacity requirements, because the less strong, stable and diverse a firm's returns are, the more equity it should have. Unlike many other financial institutions, securities' firms capital needs are mostly a function of business and market risks," the authors said.

The squeezing out of the industry's overcapacity will challenge less well-capitalized or less well-positioned firms, and could drive them to merge with stronger firms or with foreign firms, or cause them to fail.

Another threat is deregulation. The Glass-Steagall Act, which bans commercial banks from participating in many aspects of the U.S. securities business, is being steadily eroded and may be eliminated in the near future. Large banks in both the United States and Japan, where legal barriers also are weakening, "are factors that make it easier for firms to penetrate U.S. securities firms' core markets and business," the authors wrote.

There are other domestic challenges that have an impact. The cross-industry acquisitions of U.S. securities firms have changed the scale of competition. For example the mergers of Kidder Peabody & Co. Inc. and General Electric Co.; Donaldson, Lufkin & Jenrette Securities Corp. and The Equitable Life Assurance Society of the United States; Dean Witter Reynolds Inc. and Sears, Roebuck & Co.; Dillon Read & Co. Inc. and Travelers Insurance Co.; and Smith Barney Inc. and Primerica Corp.; and the formation of such companies as Prudential-Bache Securities Inc. have created a new class of players with considerable money and patience, and who have been making significant investments.

To the industry's credit, however, there are some inherent strengths that will allow it to take advantage of this changing environment.

U.S. securities firms have a well-developed skill base, managers are improving management information and control systems, and they are innovative and marketing oriented.

Moody's noted most securities firms managers are taking a harder, more systematic look at their financial-management systems, using methods that have long been employed by industrial companies. Some of the results so far include improved line-of-business profitability systems and formal budgets.

Messrs. Kriz and Mahoney said these trends will continue and will result in making U.S. securities firms a more professionally managed industry. ■

# Venture

*Continued from page 39*
leasing from life insurance companies, auto finance firms and financial firms like investment banks," Mr. LaBe said.

Comdisco will only arrange deals with venture-backed companies. It has made $70 million of investments in 71 companies and holds warrants in many of them. About half of the companies are in the high-technology industry; the rest run the gamut from retail to biotechnology to semiconductors to software.

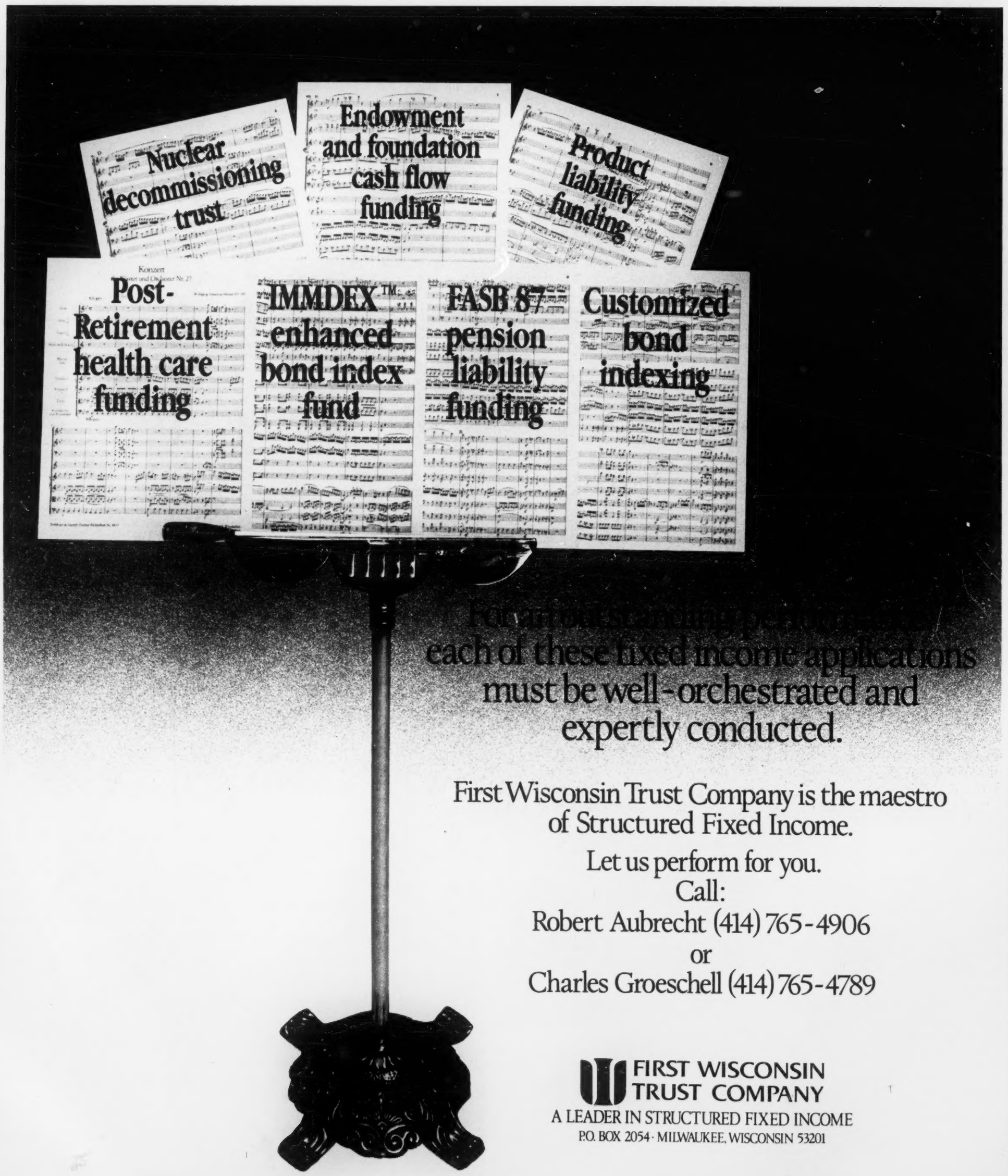
Sybase Inc., an Emeryville, Calif., data base software company, used venture leasing in its formative years arranged by Comdisco and others. "We got in early," Mr. LaBe said, providing warrants-secured equipment leasing. Comdisco has maintained a relationship with Sybase; its nonventure leasing operation is now providing financing. Sybase, in which Lotus Development Corp. has a stake, is expected to go public down the road.

Dave Turner, vice president of operations and administration, said venture leasing helped Sybase expand when it had no track record as a start-up in 1985 through 1987. Then the company was able to secure financing on the basis of its creditworthiness and record. "It allowed us to use our venture capital for working capital," Mr. Turner said, and added he did not mind giving up a little equity in the form of warrants.

Max La Counte, president of Pacesetter Capital, said the companies for which venture leasing is designed are one to four years old and venture capital firms provide the cash flow that keeps them going in the early stages. The development stage of companies in which such funds are invested has lengthened. He said the sources of funds used to be mostly corporations and individuals and trusts, but that has shifted toward some retirement funds and foreign investors.

Pacesetter specializes in leasing programs for manufacturers of high-technology equipment and asset-backed financing for venture capital-backed emerging growth companies.

Mr. La Counte explained that in a typical venture lease, the principal source of cash flow is the monthly revenue stream from rental payments. Rentals account for more than 50% of the overall return to the lessor. A secondary source of cash flow is from equipment residual values, which comprise up to 25% of the return. Most leases assume the lessor will be granted some form of equity participation in the emerging growth company, usually warrants to purchase common stock. ■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# PIPER+ debut

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**(periods ended Sept. 30, 1989)**

| | Quarter | 1 yr. | 3 yr. | 5 yr. | 10 yr. |
|---|---|---|---|---|---|
| Highest return | 7.5 % | 22.35% | 13.73% | 19.27% | 16.39% |
| First quartile | 1.66 | 11.48 | 8.94 | 14.3 | 14.16 |
| Median | 1.2 | 10.35 | 8.28 | 12.86 | 12.32 |
| Third quartile | 0.83 | 9.25 | 7.63 | 11.62 | 11.53 |
| Lowest return | −3.54 | 1.37 | 2.19 | 8.48 | 9.73 |
| **SLH G/C** | **0.94** | **11.3** | **7.73** | **12.82** | **11.5** |

*Continued from page 1*

For the 12 months ended Sept. 30, slightly more than 30% of the PIPER+ regular equity universe produced higher returns than the S&P 500, which gained 32.83% for the period. The median PIPER+ return for the period was 30.47%.

For the quarter, the median fund was up 9.96% compared with 10.73% for the S&P 500 index.

Fixed-income managers in PIPER+ beat the Shearson Lehman Hutton Government/Corporate Bond Index for the quarter and three-, five- and 10-year periods. The managers' median returns for the periods were 1.2%, 8.28%, 12.86% and 12.32%, respectively. The index had returns of 0.94%, 7.73%, 12.82% and 11.5%. For the year ended Sept. 30, however, the index was up 11.3% compared with a median for the universe of 10.35%.

The top equity manager for the 12 months is Cheswick Investment Co., Greenwich, Conn. The composite of all of the firm's equity-only accounts totaling $79 million was up 63.14% for the period.

It was followed by Janus Capital Corp., Denver, which reported the composite of its equity accounts totaling $28 million was up 62.8%.

Third was the $160 million Stellar Fund of Provident Investment Counsel, Pasadena, Calif., which was up 56.6%.

Cheswick Investment follows a growth stock philosophy, augmented by the judicious use of some derivative securities, although not options or futures, said Richard R. Cheswick, chief executive officer.

"We had a pure growth stock approach investing in only 10 out of the 90 Standard & Poor's (stock) groups," Mr. Cheswick said. "We were perhaps 35% in pharmaceuticals."

He said the portfolios had between 7% and 10% invested in each of the most important stocks, such as **Philip Morris Cos. Inc., Capital Cities/ABC Inc., Merck & Co. Inc., Eli Lilly & Co., Bristol-Myers Co.** and **Alza Corp.**

"Another reason we finished high is that we used five derivative securities," he said. "We bought Fannie Mae warrants, which have risen as much as five- and sixfold. We bought Eli Lilly warrants, which are up from something like 19 to about 57. We bought two Americus Trust Scores to back up the holdings of Merck and Philip Morris. They act something like warrants and they have tripled or quadrupled. In late 1978, Alza sold a rights offering of one warrant and one share as a unit at 11. We bought all we could and they have gone to 30."

Mr. Cheswick said his firm manages $300 million, most of it in balanced, taxable accounts for wealthy individuals. The performance figures represent 10 accounts that are pure equity accounts, he said. The firm has begun to attract some tax-exempt clients.

Cheswick Investment also is in the first decile of the PIPER+ results for the five-year period.

The best return for five years was reported by Intelligent Investment Management, Pittsburgh, which uses artificial intelligence in its investment process. According to Paul Blake, vice president and principal, the firm uses a computer system combining pattern recognition and probability theory to develop portfolios with a high probability of outperforming the market. The firm's five-year results are a combination of real results since the second quarter of 1988 and simulated results before that.

Second in the five-year period was NFJ Investment Group Inc., Dallas, with a return of 37.04%. NFJ manages about $12 million of its $265 million in tax-exempt assets using the approach that achieved these results.

The performance reported in PIPER+ includes the results achieved by Ben Fischer, NFJ managing director, in running the Select Fund with the identical approach at First RepublicBank Dallas (now NCNB Texas). The approach is a highly concentrated value approach using between five and 10 stocks at any one time.

Although the assets managed using this approach were only in the sixth decile for the latest 12 months, they were in the top decile in the three-year period.

The top special equity account for the 12 months ended Sept. 30 was Fred Alger Management Co.'s $12.5 million small-capitalization fund with 75.56%.

According to David Alger, executive vice president and portfolio manager for the fund, the fund had success with small-cap growth stocks in several industries, including cellular telephones, fast foods, retailing and medical. The fund also led the special equity funds for the latest quarter with a return of 19.14%.

Second for the 12 months was Wall Street Associates, La Jolla, Calif., with its $236 million small-cap growth equity fund, which was up 50.25%.

For the five years, the top return was 28.19% from Columbus Circle Investors, Stamford, Conn. Columbus Circle, which manages $3.7 billion, $2 billion of it in equities, follows an "earnings surprise" discipline, said Don Chiboucas, president.

"We look at a number of leading indicators to identify companies that might generate earnings surprises," Mr. Chiboucas said. "We look at things that provide early warning of earnings surprises, such as the rollout of new products or the trade-weighted value of the dollar. It's a sell discipline as well as a buy discipline."

The representative account reported by Columbus Circle Investors was in the top 10% for the three and five years, and the top 20% for 10 years.

In terms of risk-adjusted return, the tactical asset allocation/balanced managers had the best record for the past five years. Forty-four of the 50 for whom the risk-adjusted return could be calculated had positive alphas.

The top fund among the balanced and TAA accounts for the latest year was J & W Seligman & Co. Inc.'s balanced composite, which was up 32.3%. The New York-based company's balanced fund composite comprises 11 pension fund portfolios totaling $300 million. The equity portion is invested in growth stocks and in the past year had holdings in **LIN Broadcasting Corp., MCI Communications Corp., Federal National Mortgage Association** and **Waste Management Inc.** The fixed-income portion was 15% corporates, 15% mortgage-backed securities and the remainder governments.

It was followed by Cheswick Investment's balanced accounts, which were up 29.41% for the year.

For the five-year period, the top balanced/TAA fund was Chancellor Capital Management's $45.2 million Stockshift fund, at 27.02%.

This fund uses futures to bring its desired equity allocation into line with its expectations for the market.

Los Angeles-based Trust Co. of the West's $862 million convertible strategy composite, with a return of 22.35%, was the fixed-income leader for the one-year period. This fund is in the top 10% of the universe for three-, five- and 10-year periods also.

Bridgewater Asset Management, Darien, Conn., which manages virtually all of its approximately $250 million in institutional assets using a duration-based market timing approach was the top fund for the five-year period, with a return of 19.27%.

According to Ray Dalio, president and chief investment officer, the firm watches four major influences of the environment for bonds: money and credit growth, economic growth, inflation and Federal Reserve policy.

"These give us an EKG of the economy," he said. Based on this information, the firm adjusts the duration of its portfolios. "It is purely a duration-based approach," he said. ■

# Retiree

*Continued from page 3*

to participants who leave prior to retirement. Those who retire are limited to $50,000 in benefits.

"The concept is that our long-term costs are very dramatic. The Financial Accounting Standards Board (accrual) accounting opinion brings into focus that there is a very significant liability the company will have as we continue to provide long-range retiree medical benefits," said Mr. Quinn.

"That led to the conclusion that to provide the benefit, given the high cost levels, employees would have to share in the cost of those programs. Therefore, we established a concept that provides for some employee payments," Mr. Quinn added.

The voluntary employee payments will be adjusted for employee entry age with younger employees paying a somewhat higher amount, Mr. Quinn said. Payments will be adjusted for medical inflation, which has been rising at a greater rate than the general rate of inflation.

AMR's total health care claims and life insurance premiums have risen to $21.1 million in 1988 from $16.4 million in 1986.

Because the funding is from employees and not from the corporation, there are no tax considerations, said Mr. Quinn, and the method of funding AMR's overall retiree medical liability will not be decided anytime soon.

"We are looking at (funding vehicles) all the time, but our view is we think that legislatively there are lots of changes that could occur in the next one or two years that could distort what is available today. We want to make sure what the long-term outlook for these vehicles will be before we decide," Mr. Quinn said.

"We're not going to rush into pre-funding."

Because the FASB accounting rule is not scheduled to take effect until 1992, benefits consultants claim companies can and, in some cases are, take measures to mitigate its impact. Those actions include reducing or eliminating retiree health plan benefits or establishing a pool of assets to pay for future benefits.

Fewer than 5% of companies are funding retiree medical liabilities, according to Richard Ostow, consultant with TPF&C in Washington.

Those that fund do so mostly through 501(c)(9) trusts, a voluntary employee benefit fund set up to provide life, health and accident insurance coverage. Under current regulations, contributions to the trust are limited and income is taxable.

Until the funding issue is clarified, most companies have been focusing on plan design changes including increasing deductibles and co-payments and setting limits on, reducing or scrapping benefits.

Pat Wilson, principal with the benefits consulting company A. Foster Higgins Inc., Philadelphia, said the AMR program represents "a shifting of a portion of the ultimate cost (of retiree health benefits) to the retiree; it's a cost shifting step and is also a funding mechanism."

She was not aware of other companies following the same approach, "at least not to the extent or degree of sophistication of American Airlines."

Mr. Ostow said since the AMR program involved the establishment of a trust account, "in that sense it is funding, and is cost sharing in the sense that active employees pay for some of the future benefits." ■

# Dayton Hudson sets

*Continued from page 1*

this year, the agencies provided investment guidelines for money managers that spell out what can and can't be done in proxy voting and tender offers, and said they can make decisions based on a long-term view. Some managers previously were worried that if they didn't tender shares quickly, they would be breaching their fiduciary duty because they wouldn't cash in on the run-up in the target company's stock.

The policies, initiated by the investment committee for the $680 million in employee benefit assets, also underscore the belief of Mr. Macke and Dayton Hudson's board that short-term investors and hostile takeover activities undermine the stability of America's economy and capital markets.

In the letter to its managers, Dayton Hudson was careful to say it is the company's "preference," rather than requirement, that managers first see what the board of a takeover target recommends before deciding what to do with the shares they hold. Because the company has given its managers discretion, it can't dictate policies.

James Eckman, assistant treasurer, said Dayton Hudson wants its managers "to know we have a long time horizon." Managers don't have to tender shares immediately for fear Dayton Hudson will judge them on the basis of short-term investment performance, Mr. Eckman said.

Mr. Eckman said the actions of Dayton Hudson's small pension fund won't have a major impact, but he hopes it may prompt others to address the issues. He said he has discussed, informally, the changes with other pension fund executives, whose response mostly was "neutral" or "non-committal."

"This decision was made by our investment committee, not by our managers. We did it strictly for investment reasons," he said.

Holding stock in a company instead of tendering it immediately in a takeover can be a sound investment decision. Investing in leveraged buy-outs can be too, he said, but it is the investment committee's view this is "a high-risk, overstated return area."

He said the risk vs. reward profile of leveraged buy-outs has changed. "We feel in the early stages of the life cycle there was potential for high returns. But later it took on a more hostile nature, pricing became more competitive and the return potential went down," he said. "We feel it's a very high-risk kind of investment, where everything has to go right for them to succeed. If there is a downturn, there is a potential for many of them to get into trouble."

James Hale, senior vice president, corporate secretary and general counsel, said Dayton Hudson's investment policy should be viewed in the context of the company's commitment to furthering corporate governance goals, practicing sound portfolio management and speaking out about the ill effects of hostile takeovers.

Al Harrison, executive vice president and manager of the Minneapolis office of Alliance Capital Management, one of Dayton Hudson's managers, said he had no problem with the revised guidelines.

"It's obviously not a mandate," he said, adding the request that the firm take into consideration a board of director's response to a hostile takeover is already part of Alliance's policy. He said the leveraged buy-out restriction isn't a problem either because the firm doesn't invest in them.

"Care, skill and prudence is what guides us. In most cases it wouldn't be a conflict. We're going to do what's best for the beneficiaries as mandated under ERISA. A pension plan board can express its view but can't put us in a position to mandate actions," Mr. Harrison said.

Dayton Hudson will monitor its managers regularly as part of the normal performance review, Mr Eckman said.

Among the outside directors are executives of ITT Corp., Xerox Corp., Meredith Corp., Minnesota Mining & Manufacturing Co., Tennant Co. and Hallmark Cards Inc.

Two years ago, Dayton Hudson succeeded in defending itself against a hostile bid by the Haft Brothers' Dart Group Corp. The bid was derailed in part because of Black Monday and the company's strong response.

At the time, the company wasn't in the best financial shape. Since then, Mr. Macke has made major changes, including divestitures of poor performing assets.

Although Mr. Macke is playing it close to the vest, he is believed to be scouting for acquisitions at a time when a number of retail industry properties are on the block. Dayton Hudson owns, among other stores, Target and Mervyn's. ■